

REVISED ANALYSIS

Author: Torres Analyst: William Koch Bill Number: AB 902
 Related Bills: See Prior Analysis Telephone: 845-4372 Amended Analysis Date: April 14, 2009
 Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Principal Residence Foreclosed House Purchase Credit/Mortgage Interest Deduction Allowed Only For Principal Residence/Adjust Minimum Franchise Tax For Inflation

- ☒ REVENUE ESTIMATE CHANGED.
 _____ FURTHER CONCERNS IDENTIFIED.
 _____ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED
☒ April 14, 2009, STILL APPLIES.
 _____ OTHER – See comments below.

SUMMARY OF BILL

This bill would:

Provision 1: Allow a tax credit for the purchase of a foreclosed house, as specified.

Provision 2: Limit the deduction for qualified residence interest to a taxpayer's principal residence, as specified.

Provision 3: Adjust the Minimum Franchise Tax (MFT) for inflation, as specified.

SUMMARY OF REVISION

The revenue estimate for Provision 2 of this bill has been revised to account for a reduced estimated behavioral change of taxpayers due to the limited number of taxable years to which this provision would apply.

The remainder of the department's analysis of the bill as amended April 14, 2009, still applies.

Board Position:

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 _____ SA _____ O _____ NAR
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Legislative Director**Date**

Patrice Gau Johnson
 For Brian Putler

05/15/09

ECONOMIC IMPACT – SUMMARY REVENUE TABLE

Estimated Revenue Impact of AB 902 Enactment Assumed After 06/30/2009 \$ in Millions			
	2009/10	2010/11	2011/12
Provision 1: Tax Credit for The Purchase of a Foreclosed House	-\$58	-\$137	-\$153
Provision 2: Limit the Deduction for Qualified Residence Interest	\$37	\$95	\$55
Provision 3: Adjust the MFT for Inflation	\$19	\$25	\$6
TOTAL	-\$2	-\$17	-\$92

Provision 2: Limit the Deduction for Qualified Residence Interest

ECONOMIC IMPACT

Revenue Estimate

Based on data and assumptions discussed below, projected revenue gains for this provision of the bill are shown in the table below:

Estimated Revenue Impact of Provision 2 - AB 902 – Limit Interest Deduction to Principal Residence Enactment Assumed After 6/30/2009 Effective Tax Years BOA 01/01/2010 and Before 01/10/2012 \$ in Millions		
2009/10	2010/11	2011/12
\$37	\$95	\$55

This analysis does not take into account any change in employment, personal income, or gross state product that may result from this provision becoming law.

Revenue Discussion

The revenue impact of this provision depends on the estimated number of second homes, the total amount of qualified residence interest deductions reported for second homes, the personal income tax rate and assumed behavioral changes in response to this provision.

In 2005, the share of second homes nationally was 5.3 percent of all housing units in the United States. This share is assumed to remain stable and California's share of second home ownership is also assumed to be the same as the national percentage.

Homes with mortgages account for 76 percent of housing units in California in 2006 and about 1.73 percent of those homes are second homes. This percentage is applied to the total qualified residence interest deductions reported in 2006 to arrive at the portion of the qualified residence interest deductions that applies to second homes. The total amount of qualified residence interest deductions reported in 2006 is \$88 billion, and the qualified residence interest deductions for second homes, after adjusting for smaller second home mortgage balances, is estimated to be \$1.22 billion. The 2006 estimate is then projected to future years using qualified residence interest deduction growth rates (2009-10 Governor's budget, December 2008). For 2010 and 2011, the total amount of qualified residence interest deductions for second homes is estimated to be \$1.24 billion and \$1.27 billion, respectively. The average marginal tax rate of 8 percent is applied to the estimated qualified residence interest deductions for second homes to obtain the gain in tax revenue from removing the qualified residence interest deduction for second homes. For 2010 and 2011, the estimated gains in tax revenue are estimated to be \$99 million and \$101 million, respectively.

Projected revenue gains were decreased to \$94 million (from \$99 million) in 2010 and \$96 million (from \$101 million) in 2011 to reflect the ability of some taxpayers to restructure their debt by increasing qualified residence interest on their primary residence while reducing debt on their second home or to postpone purchases of second homes until after this provision sunsets.

Calendar year estimates are converted to fiscal year estimates as shown in the table above.

LEGISLATIVE STAFF CONTACT

Legislative Analyst
William Koch
(916) 845-4372
william.koch@ftb.ca.gov

Revenue Director
Jay Chamberlain
(916) 845-3375
jay.chamberlain@ftb.ca.gov

Legislative Director
Brian Putler
(916) 845-6333
brian.putler@ftb.ca.gov